25th February 2016

Utilities

Engie

Price EUR13.49

2015 earning - first take: Transformers!

Fair Value EUR19 (+41%) **BUY**

Bloomberg	GSZ FP
Reuters	GSZ.PA
12-month High / Low (EUR)	19.9 / 13.1
Market Cap (EUR)	32,840
Ev (BG Estimates) (EUR)	75,135
Avg. 6m daily volume (000)	6 355
3y EPS CAGR	5.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.5%	-16.7%	-10.5%	-17.4%
Utilities	-5.8%	-11.0%	-3.5%	-10.1%
DJ Stoxx 600	-5.4%	-14.8%	-6.4%	-12.5%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	74,686	80,241	80,118	80,047
% change		*7.4%*	*-0.2%*	*-0.1%*
EBITDA	12,358	11,395	11,717	11,824
EBIT	6,574	6,420	6,603	6,553
% change		*-2.3%*	*2.8%*	*-0.8%*
Net income	2,728	2,481	2,650	2,741
% change		*-9.1%*	*6.8%*	*3.4%*

	2014	2015e	2016e	2017e
Operating margin	8.8	8.0	8.2	8.2
Net margin	3.7	3.1	3.3	3.4
ROE	4.9	4.5	4.8	4.9
ROCE	4.5	4.1	4.1	4.0
Gearing	53.2	55.4	58.3	60.8

(EUR)	2014	2015e	2016e	2017e
EPS	0.94	0.99	1.06	1.10
% change	-	*5.2%*	*7.2%*	*3.6%*
P/E	14.3x	13.6x	12.7x	12.2x
FCF yield (%)	9.3%	4.5%	3.7%	4.3%
Dividends (EUR)	1.00	1.00	1.00	1.00
Div yield (%)	7.4%	7.4%	7.4%	7.4%
EV/Sales	1.1x	0.9x	1.0x	1.1x
EV/EBITDA	6.9x	6.6x	7.1x	7.2x
EV/EBIT	12.9x	11.7x	12.6x	12.9x

Engie has posted a poor 2015 earnings performance this morning, as expected. Most of the deterioration came from merchant activities, which obliged the group to book massive impairments. The outlook for 2016 is prudent, as we anticipated, as the group will continue to suffer from the deterioration in commodities prices. The most interesting element of the publication was the announcement of a transformation plan set to adapt Engie to the new world. Asset rotation should be massive and combined with a EUR1bn cost-reduction programme (EUR0.3bn/year, over the new group). Management committed to distributing a EUR1/share dividend in 2015 and 2016, and a EUR0.7/share dividend in 2017 and 2018 once Mr. Mestrallet has left the group and once significant disposals have been made. This first indications of this plan look quite interesting. We expect a positive share price reaction this morning.

ANALYSIS

- **Main 2015 metrics**: The group posted EBITDA of **EUR11.3bn** (*-7.2% YoY*), close to our **EUR11.39bn** estimate, and short of its 2015 EBITDA guidance of **EUR11.45-12.05bn**, albeit due to a negative climate effect. As expected, most of the earnings detererioration came from merchant activities (Global Gas & LNG, Enery Europe), which incurred yoy EBITDA declines of **-27% and -20%** respectively**.** The positive contributions from the Infrastucture and Energy Services businesses (respectively +3.9% and +4% YoY in EBITDA growth) were not sufficient to offset the decline in other activities. The group's net recurring income came in ahead of our EUR2.48bn estimate, at EUR2.6bn, again short of the group's 2015 guidance (EUR2.75-3.05bn). EUR8.7bn in impairments were booked by the group following the massive deterioration in commodities prices that affected both the E&P and LNG businesses. These impairments took a toll on the group's net reported income, leading **to a net loss of EUR4.6bn**. As for net debt, the group was able to maintain its 2.5x net debt/EBITDA ratio with net debt at **EUR27.7bn** while we expected EUR28.6bn.
- **What to retain from this publication?** The group unveiled its new three-year strategic plan which is based on **1/ EUR22bn of capex** over the period o/w **EUR7bn** for maintenance, implying **EUR5bn** in growth capex/year (vs. EUR4-5bn over past years), **2/ on EUR15bn** in asset rotation, **o/w 1/3** is already signed by the group, as of today (US thermal assets notably), **3/ EUR1bn** from a net performance gain through the launch of the "Lean 2018" plan (at the EBITDA level), **4/**a net debt/EBITDA ratio which is set to remain **≤ 2.5x as over past years**. With this strategy, the group's financial structure is set to change considerably, notably due to significant disposals. Engie unveiled it will distribute a stable dividend for 2015 and 2016 at EUR1/share while distributing a EUR0.7/share dividend in 2017 and 2018, as the group will be in its transformation phase. As for 2016, the group unveiled it is targeting EBITDA of between **EUR10.8bn and EUR11.4bn**, below our **EUR11.7bn** estimate, but in line with the current consensus (EUR11.4bn) that should allow it to report net recurring income of between **EUR2.4bn and EUR2.7bn**, in line with our estimates (consensus at EUR2.8bn).
- **Conclusion**: The group's guidance for 2016 **is in line with our estimates** (on net recurring income), confirming the operational deterioration is set to continue beyond 2015, as expected. **The three-year strategic plan just** unveiled by the group seems quite interesting as it will adapt Engie to the new world. **We confirm the Buy rating.**

VALUATION

- At the current share price Engie is trading at 12.7x its 2016e EPS
- Buy, with FV @ EUR19

NEXT CATALYSTS

- Analyst meeting at 08.00am CET: +33 (0)1 76 77 22 24

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